

# GOVERNOR'S ECONOMIC DEVELOPMENT PROPOSALS

The Governor is proposing that \$13.265 million general fund be appropriated for various activities designed to encourage economic development. This report summarizes those proposals and provides other information.

## Background

The 1999 legislature passed several pieces of legislation designed to spur economic development in Montana. Table 1 summarizes the activities funded through HB 260 and compares them to the Governor's proposal and current funding.

The three columns under the heading "Out of 1999 Regular Session" show the impacts of legislative actions during the 1999 regular legislative session. The "HB 260" column shows the resultant funding for the various programs with economic development activity. The "Coal Severance Tax" column shows the remaining funding from the coal severance tax as a result of HB 260. The two columns under the heading "2000 Special Session" show the Governor's proposed funding for economic development programs in the May 2000 Special Session and the program funding from the coal severance tax that resulted when the HB 260 coal producer's license tax was ruled unconstitutional.

Table 1 Economic Development (Excludes TSEP) Fiscal 2001				
Program	Out of 1999 Regular Session		2000 Special Session	
	HB 260	Coal Severance Tax	Governor's Call Letter	Default due to HB 260 being unconstitutional
Estimated Coal Producers License Tax	\$ 19,349,000			
Agriculture seed capital account <sup>1 &amp; 2</sup>	2,500,000		\$ 1,250,000	
Department of Commerce			1,250,000	
Tax increment financing industrial districts	600,000		600,000	
Sum of fixed allocation	\$ 3,100,000			
Allocation of remaining amount after HB 260 fixed allocation:	\$ 13,949,000			
Long-Range Building Program - cash	16.99% \$ 2,369,935	\$ 1,428,932		\$ 3,785,640
Long-Range Building Program - debt	1.74% 242,713			
Non-expendable trust for parks acquisition or management	1.70% 237,133	151,229		400,647
Cultural and Aesthetic trust fund	0.86% 119,961	75,019		198,746
Renewable resource loan debt service fund	1.27% 177,152	113,124		299,697
Coal Severance Tax shared account (15-35-108(3), MCA)	11.15% 1,555,314	995,489		2,637,329
Research and Commercial Expendable Trust Fund <sup>3</sup>	33.33% 4,649,202		6,600,000	
General fund	32.96% 4,597,590	3,190,090		8,451,441
Cooperative Development Center			65,000	
Treasure State Endowment regional water account		1,488,471		3,943,375
Column Totals	\$ 17,049,000	\$ 7,442,353	\$ 9,765,000	\$ 19,716,875
Totals		\$24,491,353		\$ 29,481,875

<sup>1</sup> Referred to in the Governor's call letter as Growth Through Agriculture

<sup>2</sup> HB 260 appropriates \$2.5 million but doesn't specify if it is a biennial or yearly figure. The figures in the table assume the allocation was yearly.

<sup>3</sup> Total biennial amount is over \$9.5 million, most of which was anticipated to match federal grants in the university system. The \$6.6 million in the Governor's call relates to the entire biennial figure.

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Excluding TSEP, the Governor's proposal is \$9.8 million additional funding to restore funding to specific economic development programs that were not funded as a result of the Supreme Court's ruling. If the legislature appropriates funding for the Governor's proposal, the resulting funding, excluding TSEP but including deposits to the general fund, would be \$29.5 million, or \$5.0 million more than the legislature intended during the 1999 regular legislative session. (This figure includes an additional \$0.7 million to the general fund.)

The Governor included \$3.5 million for the Treasure State Endowment Program in his call for a special legislative session. This compares to a biennial allocation in HB 260 of \$4.6 million. Coincidental to HB 260, the legislature passed SB 220, which increased the allocation of the coal severance tax from 25 percent to 37 percent to the treasure state endowment state special revenue account. As a result of SB 220, the balance in the account and subsequently the interest earnings available for allocation have increased by roughly \$1.01 million. This growth of interest accounts for the difference between the HB 260 allocation and the amount included in the Governor's proposal.

### Governor's Proposal

Table 2 summarizes the Governor's economic development proposals. Following the table, each proposal is discussed in more detail.

Table 2 Summary of Economic Development Proposals May 2000 Special Session	
Activity	Amount
Growth Through Agriculture	
Growth Through Agriculture Grants and Loans	\$896,000
Marketing and Business Assistance (Agriculture)	354,000
Business Recruitment	350,000
Certified Communities	425,000
Foreign/Canadian Trade	300,000
Small Business Development Centers	125,000
Small Business Innovative Research	50,000
Industrial Infrastructure Reimbursement	600,000
Cooperative Development Center	65,000
Board of Research and Commercialization	6,600,000
Treasure State Endowment Program	<u>3,500,000</u>
Total	\$13,265,000

### Growth Through Agriculture

The Governor proposes \$2.5 million in funding for a number of projects in the Departments of Agriculture and Commerce, all under the category of "Growth Through Agriculture." Proposals in the Department of Commerce are not exclusive to agriculture. Consequently, only \$1.25 million of the total is targeted to agriculture, either in additional staff or through the provision of additional grants and loans through the Growth Through Agriculture (GTA) seed capital account.

### Growth Through Agriculture Grants and Loans

The Montana Growth Through Agriculture Seed Capital Account has been funded with coal tax revenues since its inception. Until the 1997 biennium, the account automatically received a statutorily defined percentage of these revenues. While the source of regular funding to the account has remained the same, the account no longer automatically receives a portion of the coal tax. Instead, the account competes for 8.36 percent of coal tax revenues with several other functions. The legislature appropriated \$812,687 to Growth Through Agriculture in the 2001 biennium in HB 2. (Please note that the shared account was to receive a portion of the HB 260 coal producer's license tax. When that tax was declared unconstitutional, the account reverted to being entirely funded with coal tax.) In addition, the legislature provided \$2.5 million in HB 260 to the Growth Through Agriculture Seed Capital Account for further grants and loans.

The seed capital account was established in Section 90, Chapter 9, MCA. This statute is provided for reference in Appendix E. An Agriculture Development Council was also established and given broad criteria and goals for providing grants and loans from the account. A summary of grants and loans made from the account since its inception and compiled by the Department of Agriculture is provided in Appendix D. Please note that the 2001 biennium budget does not include any activities funded through HB 260.

The Governor is not proposing that specific proposals be funded. Instead, he proposes that a total of \$896,000 be provided to the account. Prior to Supreme Court action on HB 260, the council approved over \$400,000 for projects contingent upon the availability of HB 260 funds. The council has informed potential applicants

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that everyone must resubmit their applications for these funds on a competitive basis, regardless of any past action taken.

## *Issues and Comments*

The legislature may wish to examine the proposed grant and loan funding from a couple of vantage points: 1) the level of funding provided; and/or 2) the methodology by which the grants and loans are prioritized and chosen.

Level of Funding Requested - According to staff in the Department of Agriculture, while the council receives approximately twice as many applications for funds than the level available, in past years the council has been able to fund those projects it has favored with the funding available through coal tax revenues. When HB 260 funding became available, the criteria under which funds could be provided was expanded to include feasibility and marketing activities, with an emphasis on value-added products and activities in accordance with Vision 2005 recommendations.

While the council approved \$400,000 in fiscal 2000 pending availability of funds, or less than half of the amount requested by the Governor, this amount represents only a portion of the grant year. Potential applicants were not encouraged to apply and all applications were ended prior to the end of the year. However, because no history exists, the question remains as to whether the council will receive applications of sufficient quality to justify the amount requested, and that those funds will be used for projects that meet guidelines and council approval. If the legislature wishes to approve funding for further grants and loans, it may wish to reduce the amount provided until appropriate historical data can be gathered that indicates whether sufficient projects of sufficient quality exist.

Methodology - As stated, the Agriculture Development Council reviews and approves all projects and their level of funding, using criteria and goals established in statute. (A copy of the criteria as specified in statute is provided in Appendix E.) If the legislature is concerned about the quality of the individual projects originally slated for funding or about potential future decisions by the council, it may wish to examine statute for possible change to either:

- 1) the criteria and goals under which the council reviews projects; or
- 2) the general statutory make-up of the participants or the process by which final decisions are made.

## Marketing and Business Assistance

The Governor is requesting a total of \$354,000 for two purposes: 1) \$170,500 for agricultural product promotion; and 2) \$183,500 for agricultural business assistance. The funding would include an additional 4.0 FTE.

Certain benchmarks have been identified by the Department of Agriculture for measuring the success of the programs, including to increase domestic and international Department of Agriculture assisted product sales by 100 percent each year. However, most benchmarks identified deal with the activities such as the number of businesses that will be assisted, rather than measurable outcome objectives. The legislature may wish to ask the department to clarify how these activities will improve Montana's economy and how the executive plans to evaluate their effectiveness.

## Department of Commerce

The Governor has requested \$1.25 million for the Department of Commerce for the following programs:

- Business recruitment (\$350,000 general fund). The Governor proposes expending \$650,000 (including \$300,000 from the private sector) to "improve the perception of Montana's business climate by marketing Montana as an attractive location..." The cost includes 2.0 FTE, including a professional business recruiter.
- Local economic development – certified communities (\$425,000 general fund). This initiative funds local economic development organizations in certified communities and counties. The maximum grant allowed to any of the 43 certified communities would be \$25,000, and the minimum \$5,000. The purpose is to "establish and maintain an active network of local development organizations trained and prepared to respond to economic development opportunities and concerns."
- Foreign/Canadian trade (\$300,000 general fund). The Governor proposes hiring a Canadian trade officer, and providing additional funding to the

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Japan Trade Office and to the Taipei Trade Office to expand trade to mainland China. According to the Department of Commerce, the proposal is targeted to the small business community.

- Small business development centers (\$125,000 general fund). These funds would, along with locally generated funds, provide matching funds for federal funds to support the Small Business Development Center Program and maintain its certification.
- Small business innovation research (\$50,000 general fund). These funds would be used to provide technical assistance to Montana companies to enable them to compete for federal funds. The funds are targeted toward the technology business base.

The supporting documentation from the Department of Commerce fails to indicate any measurable outcome objectives, except for business recruitment, that can be used to evaluate the various program impacts. As such, the legislature may wish to ask the department how they will measure the effectiveness of the various programs in improving Montana's economy.

## Industrial Infrastructure Reimbursement

House Bill 260 appropriated \$150,000 in fiscal 2000 and \$600,000 in fiscal 2001 to the industrial tax increment financing district (TIF) in Butte-Silver Bow County. The purpose was to reimburse the industrial TIF for losses due to the reduction in taxable value for business equipment mandated in SB 200 and which were specifically excluded from reimbursement in SB 184. The unconstitutionality of HB 260 means the Silver Bow Industrial TIF will not receive these reimbursements.

The Governor in his call for the special session has requested that the legislature restore \$600,000 in fiscal 2001 for the Silver Bow Industrial TIF. The amount requested compares to an estimated loss in revenue due to SB 200 of \$3.7 million per year.

## Cooperative Development Center

The Cooperative Development Center is located on the campus of Montana State University – Northern in Havre. The center, which has been in operation since January, works to promote cooperatives and

cooperative action to provide economic development for rural Montana. The Governor has proposed \$65,000 of general fund for the center. The center is currently funded in part with a federal grant and in part through the provision of support by MSU-Northern.

Staff of the center has stated they would use the funds to support the director's salary, and for communication and travel expenses. The funds (and \$50,000 in additional funds from MSU – Northern and the MSU – Northern foundation) would also be used to seek a three-year, \$100,000 per year grant from the U.S. Department of Agriculture (USDA). Therefore, continuance of state funding would be sought for that period. At that point, they would rely more heavily on donations and contributions from private sources (although grants funding would continue to be sought). Additional funding secured through grants would most likely be used to hire additional people to provide additional assistance.

As stated, the center provides assistance to individuals and organizations to promote cooperatives and cooperative action. According to center staff, they do not charge for their services, except in the case of travel costs from incorporated cooperatives.

The legislature may wish to request that the center present information on how they will measure results and impacts of their activities.

## Board of Research and Commercialization

The Governor's call for action on economic development includes \$6.6 million to the Board of Research and Commercialization. HB 260 established the Board of Research and Commercialization Technology to oversee grants and loans from the newly created research and commercialization expendable trust fund. Included in this amount are: 1) \$6.4 million for the EPSCoR grants to the Montana University System (MUS); and 2) \$200,000 for the Department of Commerce/Montana Manufacturing Extension Center. It is anticipated that approximately \$150,000 of these amounts will be used for administrative expenses for the Board of Research and Commercialization Technology.

The members of the board have been appointed and have begun the task of organizing. Statutory funding for the board went away when the Supreme Court determined HB 260 to be unconstitutional. However, the board has

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continued to proceed with work to establish its strategic plan and the criteria for awarding grants and loans. Funding and staff support for the board have been provided by the Department of Commerce. On behalf of the board, the department has begun actions to advertise for an executive director. If the board continues on the current schedule, the rules that would govern grant and loan applications and awards could proceed through the public comment process and be finalized during July. This would allow the board to begin receiving applications and awarding grants and loans as early as August 2000.

Applications for the NSF EPSCoR grants requiring state matching funds are due on July 1, 2000 and require evidence of a state funds commitment in order to be considered, according to a letter from the Commissioner of Higher Education. Given the 60-day rule-making process, it is clear that the Board of Research and Commercialization Technology cannot act on those proposals prior to the July 1 application deadline. If the legislature decides to approve grant match funding for the NSF grants, it may wish to consider a direct, one-time only appropriation to the Board of Regents earmarked for that purpose so that evidence of commitment is available before the grant applications are due.

### Use of Indirect Cost Recovery Funds

Table 3 shows the analysis of the use of indirect cost recovery funds (IDCs) reported by the university system. The first portion of that table shows the percent of indirect cost recovery revenue allocated to departments and deans, faculty start-up costs, grant matching, centersupport, the vice president for research, and miscellaneous projects. Allocation of more than 100 percent of the revenue results in the deficits shown in the right column.

The university system allocates funds in the manner shown to “grow” the research program. The request for state funding for research in the 2001 biennium is the first major request of the state to help the university system in that effort.

- Therefore, the policy issue is, “Does the state wish to provide funds to enable a larger research program in the Montana University System?”
- If the answer is “yes,” then how much of the deficit shown in the right column does the state wish to backfill with general fund in order to allow the university system the matching funds for additional EPSCoR grants, which may result in potential economic development?
- If the state does appropriate general fund for matching research grants, should it be appropriated directly to the Board of Regents for that purpose?
- If all funds are appropriated directly to the Board of Regents, what is the status of the Board of Research and Commercialization Technology during the 2001 biennium?

As can be seen in the upper portion of the table, the university system has changed some of the priorities for the use of IDCs from the 1999 to the 2001 biennium. For example, the percentage return to the departments and deans at UM-Missoula increased from a range of 26 to 29 percent in the 1999 biennium to 35 percent in the 2001 biennium. Faculty start-up funds at Bozeman were decreased from approximately 12 percent each year in the 1999 biennium to 8 percent in fiscal 2000 and 4 percent in fiscal 2001. The net change in priorities, including increased percentages of funds for matching grants, results in an estimated calculated deficit of \$9 million in the 2001 biennium.

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The lower portion of Table 3 shows that the calculated deficit for the 2001 biennium would be approximately \$5.6 million if: 1) major changes in priorities shown by the shaded areas were reversed; 2) the estimated available revenue were allocated based on the 1999 biennium priorities; and 3) if the grant applications requiring a large portion of the \$1.8 million match requested at MT Tech in Butte are not approved. If MT Tech's grants are approved, the calculated deficit would be approximately \$7.1 million.

The calculated deficits discussed above assume that the goal is to expand the research programs at the three major research campuses and that the state will play a part in reaching that goal. The university system

allocated funds to departments and deans, faculty start-up costs, grant matching, and the vice president for research to encourage that expansion. If the state chooses not to participate, the research programs will not expand at the rate visualized. However, the university system could then re-allocate some of the IDC revenue from the deans and departments, faculty start-up costs, and the vice president for research to provide funds for matching grants. As a result, the university system could apply for some of the EPSCoR grants, which could be matched within available funds.

Table 3  
Analysis of Allocation of Indirect Cost Recovery Revenue in the University System

Unit & FY	Revenue	Return to Dept/Dean	% of Rev.	Faculty Start-up	% of Rev.	Grant Matching	% of Rev.	Center Support	% of Rev.	VP for Research	% of Rev.	Misc.	% of Rev.	Calculated Deficit
<b>Bozeman - 33222*</b>														
1998	\$ 6,881,645	\$ 1,534,574	22.30%	\$ 740,187	10.76%	\$ 1,949,241	28.33%	\$ 885,000	12.86%	\$ 1,454,452	21.14%	\$ 318,191	4.62%	\$ (0)
1999	7,424,778	1,578,078	21.25%	719,363	9.69%	2,455,586	33.07%	870,000	11.72%	1,009,599	13.60%	792,152	10.67%	\$ (0)
2000	7,500,000	1,600,000	21.33%	1,175,000	15.67%	4,000,000	53.33%	775,000	10.33%	1,200,000	16.00%	1,175,000	15.67%	\$ (2,425,000)
2001	8,000,000	1,700,000	21.25%	1,350,000	16.88%	4,500,000	56.25%	775,000	9.69%	1,400,000	17.50%	1,100,000	13.75%	\$ (2,825,000)
<b>Missoula - 33191**</b>														
1998	2,086,669	614,039	29.43%	263,426	12.62%	256,103	12.27%		0.00%	350,129	16.78%	351,276	16.83%	\$ 251,696
1999	2,462,086	633,932	25.75%	283,615	11.52%	278,948	11.33%		0.00%	399,470	16.22%	446,834	18.15%	\$ 419,287
2000	3,819,480	1,336,818	35.00%	310,149	8.12%	2,512,437	65.78%		0.00%	784,808	20.55%	391,921	10.26%	\$ (1,516,653)
2001	4,201,428	1,470,500	35.00%	149,900	3.57%	2,204,768	52.48%		0.00%	805,130	19.16%	395,051	9.40%	\$ (823,921)
<b>Butte - 33520***</b>														
1998	984,304	215,000	21.84%	20,000	2.03%	200,000	20.32%		0.00%	362,204	36.80%	187,100	19.01%	\$ -
1999	899,238	32,500	3.61%	20,000	2.22%	190,400	21.17%		0.00%	439,550	48.88%	217,288	24.16%	\$ (500)
2000	666,198	80,000	12.01%	15,000	2.25%	279,085	41.89%	125,000	18.76%	310,863	46.66%	147,250	22.10%	\$ (291,000)
2001	721,516	235,000	32.57%	20,000	2.77%	1,821,320	252.43%	125,000	17.32%	340,500	47.19%	27,250	3.78%	\$ (1,847,554)
	\$ 45,647,342	\$ 11,030,441	24.16%	\$ 5,066,640	11.10%	\$ 20,647,888	45.23%	\$ 3,555,000	7.79%	\$ 8,856,705	19.40%	\$ 5,549,313	12.16%	\$ (9,058,645)
* IDC cost recovery only - excludes non-mandatory higher ed transfers														
**Includes Higher Ed Cost Recoveries - UM and MTTech														
*** MTTech spent down fund balance in FY 98 and 99														
Unit & FY	Revenue	Return to Dept/Dean	% of Rev.	Faculty Start-up	% of Rev.	Grant Matching	% of Rev.	Center Support	% of Rev.	VP for Research	% of Rev.	Misc.	% of Rev.	Calculated Deficit
<b>Bozeman</b>														
1998	\$ 6,881,645	\$ 1,534,574	22.30%	\$ 740,187	10.76%	\$ 1,949,241	28.33%	\$ 885,000	12.86%	\$ 1,454,452	21.14%	\$ 318,191	4.62%	\$ (0)
1999	7,424,778	1,578,078	21.25%	719,363	9.69%	2,455,586	33.07%	870,000	11.72%	1,009,599	13.60%	792,152	10.67%	\$ (0)
2000	7,500,000	1,600,000	21.33%	750,000	10.00%	4,000,000	53.33%	775,000	10.33%	1,200,000	16.00%	750,000	10.00%	\$ (1,575,000)
2001	8,000,000	1,700,000	21.25%	800,000	10.00%	4,500,000	56.25%	775,000	9.69%	1,400,000	17.50%	800,000	10.00%	\$ (1,975,000)
<b>Missoula</b>														
1998	2,086,669	614,039	29.43%	263,426	12.62%	256,103	12.27%		0.00%	350,129	16.78%	351,276	16.83%	\$ 251,696
1999	2,462,086	633,932	25.75%	283,615	11.52%	278,948	11.33%		0.00%	399,470	16.22%	446,834	18.15%	\$ 419,287
2000	3,819,480	954,870	25.00%	458,338	12.00%	2,512,437	65.78%		0.00%	649,312	17.00%	649,312	17.00%	\$ (1,404,788)
2001	4,201,428	1,050,357	25.00%	504,171	12.00%	2,204,768	52.48%		0.00%	714,243	17.00%	714,243	17.00%	\$ (986,354)
<b>Butte</b>														
1998	984,304	215,000	21.84%	20,000	2.03%	200,000	20.32%		0.00%	362,204	36.80%	187,100	19.01%	\$ -
1999	899,238	32,500	3.61%	20,000	2.22%	190,400	21.17%		0.00%	439,550	48.88%	217,288	24.16%	\$ (500)
2000	666,198	86,606	13.00%	15,000	2.25%	279,085	41.89%	-	0.00%	310,863	46.66%	147,250	22.10%	\$ (172,606)
2001	721,516	93,797	13.00%	20,000	2.77%	302,243	41.89%	-	0.00%	340,500	47.19%	144,303	20.00%	\$ (179,327)
	\$ 45,647,342	\$ 10,093,753	22.11%	\$ 4,594,100	10.06%	\$ 19,128,811	41.91%	\$ 3,305,000	7.24%	\$ 8,630,321	18.91%	\$ 5,517,949	12.09%	\$ (5,622,592)

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## Fund Balance Analysis of IDC Funds

Table 4 summarizes a fund balance analysis of the IDC revenue funds at MSU-Bozeman, UM-Missoula, and MT Tech at Butte. If the university system receives the revenue and makes the disbursements as projected by the Commissioner, the fund balances will be depleted and the deficits at the end of the 2001 biennium will total \$4.1 million. If the university system cannot

provide that amount of match money, it stands to lose the equivalent of the Defense, Energy, and EPA PSCoR grants. In addition, assuming that the revenue and disbursement estimates are accurate and the fund balances are drawn down as projected, it will have no funds with which to make commitments for matching funds in the 2003 biennium. Under these conditions, the research program will probably not increase.

Table 4  
Indirect Cost Recoveries  
MSU, UM, & Montana Tech Totals

	FY '98	FY '99	FY '00	FY '01	FY '02
Beginning Balance	\$5,009,692	\$5,007,415	\$5,585,959	\$1,353,306	(\$4,143,169)
IDC Recovery	8,932,679	10,289,538	11,985,678	12,922,944	-
Other Transfers	5,238,559	4,921,656	-	-	-
Total Revenue	\$14,171,238	\$15,211,194	\$11,985,678	\$12,922,944	\$0
Total Disbursements	\$14,133,137	\$14,686,671	\$16,218,331	\$18,419,419	\$0
Adjustments					
Prior Yr. Transfers in	(9,921)	(143,249)	-	-	-
Prior Yr. Transfers out	(30,457)	197,270	-	-	-
Total Adjustments	(\$40,378)	\$54,021	\$0	\$0	\$0
Ending Balance	<u>\$5,007,415</u>	<u>\$5,585,959</u>	<u>\$1,353,306</u>	<u>(\$4,143,169)</u>	<u>(\$4,143,169)</u>

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Table 5 summarizes the fund balance analysis using assumptions that differ from those used in Table 4. Table 5 assumes that: 1) MT Tech will receive the large grant for which it has applied; and 2) the percentage allocations of IDCs will approximate the 1999 biennium priorities. Under these circumstances, the fund balances will still be depleted, but the deficits at the end of the 2001 biennium will total \$2.2 million.

## Treasure State Endowment Program

### Program Description

The Treasure State Endowment Program (TSEP) is a state infrastructure-financing program approved by Montana voters with the passage of Legislative Referendum 110 in June 1992. Grant funding for the

	FY '98	FY '99	FY '00	FY '01	FY '02
Beginning Balance	\$5,009,692	\$5,007,415	\$5,585,959	\$2,433,565	(\$2,226,193)
Agency IDC Recovery	8,932,679	10,289,538	11,985,678	12,922,944	-
Higher Ed Cost Recovery & Adjustm	5,238,559	4,921,656	-	-	-
	\$14,171,238	\$15,211,194	\$11,985,678	\$12,922,944	\$0
Total Disbursements	\$14,133,137	\$14,686,671	\$15,138,072	\$17,582,702	\$0
Prior Yr. Transfers in	(9,921)	(143,249)	-	-	-
Prior Yr. Transfers out	(30,457)	197,270	-	-	-
Total Adjustments	(\$40,378)	\$54,021	\$0	\$0	\$0
Ending Balance	<u>\$5,007,415</u>	<u>\$5,585,959</u>	<u>\$2,433,565</u>	<u>(\$2,226,193)</u>	<u>(\$2,226,193)</u>

In summary, the university system has the opportunity to apply for federal economic development EPSCoR grants. The system has changed its priorities for the use of IDC revenue and positioned itself to use the grants to expand the research program. However, the required state match for the additional grants is greater than the university funds available in the IDC fund balances and current revenue. The total of the required grant matches is \$4.1 million greater than the current resources if the system uses the IDCs as proposed and expends its entire fund balance. The required total required is \$2.2 million greater than current resources if the system maintains its 1998-1999 priorities for expending IDC revenue and expends its entire fund balance. In either case, the university system may not qualify for all the available EPSCoR grants if it cannot identify additional resources that would be available for matching grants.

program is derived from investment earnings on coal severance tax funds. TSEP loans are funded with proceeds from bonds backed by coal severance tax collections. Infrastructure projects include drinking water systems, wastewater treatment facilities, sanitary sewer or storm sewer systems, solid waste disposal and separation systems, and bridges.

Eligible applicants include cities, towns, counties, and tribal governments, or county or multi-county water, sewer, or solid waste districts. The Department of Commerce (DOC) administers TSEP and makes recommendations for grant and loan awards to the Governor. The Governor makes funding recommendations to the Montana legislature. The legislature makes the final decisions on the award of TSEP funds.



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## Funding

### *1999 Legislature*

The 1999 Legislature enacted two bills that had a significant impact on the TSEP program funding:

- ❑ **House Bill 260 (HB260)** -- established the coal producers' license tax and allocated a specific dollar amount, \$4.6 million in the 2001 biennium, to the TSEP state special revenue account for grants. There was no percentage allocation of coal producers' license tax to TSEP.
- ❑ **Senate Bill 220 (SB220)** -- With the passage of HB260, coordination instructions in section 4 of SB220 directed that Section 17-5-703, MCA (the section that establishes the several coal severance tax trust funds) be amended to *reallocate the distribution* of the unreserved permanent coal trust receipts from--50% to the permanent trust and 50% to the TSEP trust to -- 0% to the permanent trust, 75% to the TSEP trust, and 25% to the newly-created TSEP regional water fund. Although the percent allocation to the TSEP trust increased, interest earnings from the TSEP trust were projected at the end of the regular session to decrease approximately \$0.5 million in the 2001 biennium due to reduced coal severance tax being available because of HB260.

The overall impact of these two bills to the TSEP program was an approximate \$4.1 million increase in the 2001 biennium.

### *Supreme Court Decision*

The Montana Supreme Court decision on HB260 invalidated the \$2.3 million annual allocation of coal producers' license tax to the TSEP state special revenue account and the grant program. This results in a biennial reduction of \$4.6 million.

However, the court decision did not change the revised allocation of coal severance tax revenues to the TSEP trust that was authorized by SB220. Also, because the coal producers' license tax was eliminated by the court decision, there are more coal severance tax dollars available for allocation. The result is higher annual deposits to the TSEP trust and higher investment earnings available for TSEP grants.

# GOVERNOR'S ECONOMIC DEVELOPMENT PROPOSALS

## Fund Balance Projection 2001 Biennium

Table 6 below shows the projected fund balance for the treasure state endowment state special revenue account for the 2001 biennium, both with and without HB260.

As shown in the box on the right, TSEP trust earnings are projected to be about \$1 million higher in the 2001

biennium due to increased coal severance tax deposits to the TSEP trust. Also shown is the loss of the coal producers' license tax allocation. The difference in the beginning fund balance is due only to updated financial reports and had nothing to do with HB260.

<b>Table 6</b> <b>Treasure State Endowment State Special Revenue Account</b>		
	<b>Fund Balance Projection, 2001 Biennium (w/HB260)</b>	<b>Fund Balance Projection, 2001 Biennium (w/o HB260)</b>
Estimated Beginning Fund Balance	\$476,222	\$358,803
<u>Estimated Revenue</u>		
TSE Trust Fund Interest Earnings	\$10,976,039	\$11,987,000
Coal Producers' License Tax allocation	<u>\$4,600,000</u>	<u>-</u>
Total Revenue	\$15,576,039	\$11,987,000
Total Funds Available	<u>\$16,052,261</u>	<u>\$12,345,803</u>
<u>Estimated Expenditures</u>		
Administration - Commerce	\$602,535	\$602,535
Administration - DNRC	\$50,000	\$50,000
BOI Loan Repayments	<u>\$2,404,172</u>	<u>\$2,404,172</u>
Total Expenditures	\$3,056,707	\$3,056,707
Funds Available for Grants	<u>\$12,995,554</u>	<u>\$9,289,096</u>
Grants authorized in HB11	<u>\$12,595,643</u>	<u>\$12,595,643</u>
Estimated Ending Fund Balance	<u><u>\$399,911</u></u>	<u><u>-\$3,306,547</u></u>

# GOVERNOR'S ECONOMIC DEVELOPMENT PROPOSALS

## May 2000 Special Session Call

The governor's special session call includes a recommendation of \$3.5 million general fund for TSEP grants authorized in House Bill 11 (HB 11). If approved by the special session, this will provide adequate funding for all grants authorized in HB11.

Table 7 lists the TSEP grants authorized in HB 11. The horizontal line delineates the grants that would likely be funded from "regular" TSEP funding (TSEP trust earnings) and those that would be funded from any general fund appropriation or other appropriation authorized by the May special session.

<b>Table 7</b> <b>Treasure State Endowment Program Grants - 2001 Biennium</b> <b>Approved by the 56th Legislature</b>				
Order	Applicant	Utility	Grant Award	Cumulative Total
1	Harrison Water and Sewer District	Wastewater	\$ 500,000	\$ 500,000
2	Arlee Water and Sewer District	Wastewater	\$ 500,000	\$ 1,000,000
3	Highwood County Water and Sewer District	Water	\$ 400,000	\$ 1,400,000
4	City of Missoula	Wastewater	\$ 500,000	\$ 1,900,000
5	City of Thompson Falls	Water	\$ 500,000	\$ 2,400,000
6	Town of Philipsburg	Water	\$ 121,900	\$ 2,521,900
7	Town of Ekalaka	Wastewater	\$ 87,200	\$ 2,609,100
8	Rae Water and Sewer District	Wastewater	\$ 485,850	\$ 3,094,950
9	City of Big Timber	Wastewater	\$ 500,000	\$ 3,594,950
10	City of Glasgow	Wastewater	\$ 500,000	\$ 4,094,950
11	Corvallis County Sewer District	Wastewater	\$ 410,760	\$ 4,505,710
12	Town of Boulder	Water	\$ 500,000	\$ 5,005,710
13	Town of Denton	Wastewater	\$ 415,000	\$ 5,420,710
14	City of Cut Bank	Water	\$ 500,000	\$ 5,920,710
15	Richland County	Bridge	\$ 181,155	\$ 6,101,865
16	Town of Geraldine	Wastewater	\$ 300,000	\$ 6,401,865
17	Augusta Water and Sewer District	Wastewater	\$ 500,000	\$ 6,901,865
18	City of Havre	Water	\$ 303,747	\$ 7,205,612
19	Sweetgrass Community County Water/Sewer	Wastewater	\$ 213,000	\$ 7,418,612
20	Lewis and Clark County	Bridge	\$ 500,000	\$ 7,918,612
21	Town of Drummond	Wastewater	\$ 292,850	\$ 8,211,462
22	South Hills Water and Sewer District	Water	\$ 500,000	\$ 8,711,462
23	City of Helena	Water	\$ 500,000	\$ 9,211,462
**24	City of Red Lodge	Wastewater	\$ 500,000	\$ 9,711,462
**25	Chester	Water	\$ 220,150	\$ 9,931,612
**26	Willow Ck Sewer Dist., Gallatin Co	Wastewater	\$ 500,000	\$ 10,431,612
**27	City of Columbia Falls	Wastewater	\$ 500,000	\$ 10,931,612
**28	Lacasa Grande Water&Sewer Dist, L&C Co	Water	\$ 500,000	\$ 11,431,612
**29	*Elk Meadows Water/Sewer Dist, Missoula C	Water	\$ 210,000	\$ 11,641,612
**30	*City of Harlem	Water	\$ 179,311	\$ 11,820,923
**31	*Midvale Water/Sewer Dist., Lincoln Co.	Water	\$ 374,720	\$ 12,195,643
**32	*City of Shelby	Water	\$ 400,000	\$ 12,595,643
Total Grants Authorized			<u>\$ 12,595,643</u>	
* Funding for these projects is contingent upon available revenues (1999 Regular Session).				
** Funding for these projects is not expected to be available from regular TSEP funding in the 2001 biennium. (May 2000 Special Session)				

# FISCAL IMPACT OF COURT DECISION ON HB 260

*Editor's Note: This document was originally prepared by LFD staff in November 1999 to apprise the legislature of the potential fiscal impact of a court decision on HB 260. It has been updated and is included here as a reference document since it relates directly to the reasons for the special session call and the fiscal issues under consideration, particularly the economic development proposals discussed in the previous section.*

## Introduction

The purpose of this section is to summarize the fiscal impact to the various state programs of the Montana supreme court decision relative to the constitutionality of HB 260 (coal producer's license tax). The court found the part of HB 260 related to the coal producer's license tax unconstitutional. Although there are four distinct taxes levied on coal production in this state, only the coal severance and producer's license taxes are addressed in this section.

## Coal Producer's License Tax

Beginning July 1, 1999, HB 260 (enacted by the 56<sup>th</sup> Legislature) imposed a new coal producer's license tax on the contract sales price (CSP) of coal. The tax rate was established at 9.17 percent of the CSP. Although this new tax was in addition to the current coal severance tax, HB 260 allowed a credit against the coal severance tax liability equal to 101.5 percent of the coal producer's license tax liability. Thus, the combined impact on coal producers was an approximate reduction of 0.9 percent in tax liability on any coal produced in Montana.

Both the coal severance and producer's license tax have distinct revenue distribution mechanisms established in Montana statutes. Table 1 shows the allocation percentages for each tax and the estimated revenue to be received by each account for fiscal 2000 and 2001. The amounts shown in Table 1 are based on distribution amounts had HB 260 been upheld.

Table 1  
Distributions of Coal Severance and Producer's License Tax  
Under HB260

	Coal Severance Tax			Coal Producer's License Tax			Both Taxes	
	Percent	Fiscal 2000	Fiscal 2001	Percent	Fiscal 2000	Fiscal 2001	Fiscal 2000	Fiscal 2001
Treasure State Endowment Special	NA			Fixed	2,300,000	2,300,000	2,300,000	2,300,000
Agricultural Seed Capital Account	NA			Fixed	2,500,000	2,500,000	2,500,000	2,500,000
Industrial Increment Districts	NA			Fixed	600,000	600,000	600,000	600,000
Permanent Trust	0.00%	0	0	0.00%	0	0	0	0
Treasure State Endowment Trust	37.50%	4,710,000	4,465,412	0.00%	0	0	4,710,000	4,465,412
TSE Regional Water Fund Trust	12.50%	1,570,000	1,488,471	0.00%	0	0	1,570,000	1,488,471
General Fund	26.79%	3,364,824	3,190,090	32.96%	4,944,000	4,597,590	8,308,824	7,787,681
Long Range Building Program - Cash	12.00%	1,507,200	1,428,932	16.99%	2,548,500	2,369,935	4,055,700	3,798,867
Long Range Building Program - Debt	0.00%	0	0	1.74%	261,000	242,713	261,000	242,713
Parks Trust	1.27%	159,512	151,229	1.70%	255,000	237,133	414,512	388,362
Arts Trust	0.63%	79,128	75,019	0.86%	129,000	119,961	208,128	194,980
Water Development	0.95%	119,320	113,124	1.27%	190,500	177,152	309,820	290,276
Shared Revenue Account	8.36%	1,050,016	995,489	11.15%	1,672,500	1,555,314	2,722,516	2,550,803
Research & Commercialization Trust	0.00%	0	0	33.33%	4,999,500	4,649,202	4,999,500	4,649,202
Totals	100.00%	\$12,560,000	\$11,907,765	100.00%	\$20,400,000	\$19,349,000	\$32,960,000	\$31,256,765

## FISCAL IMPACT OF COURT DECISION ON HB 260

Table 2 shows the estimated revenue to be received by each account for fiscal 2000 and 2001 since the Montana Supreme Court declared HB 260 unconstitutional. It should be noted that the total amount of coal tax revenue increases. This is because of the 101.5 percent credit mechanism that was negated by the court ruling.

severance tax revenue flowing into the corpus of the permanent coal tax trust account. Since this bill contained coordination instructions relative to the outcome of HB 260, it affected the amount of coal revenue distributed to the treasure state endowment trust, treasure state endowment regional water, and permanent coal severance tax funds.

Both Tables 1 and 2 incorporate the fiscal impacts of SB 220. Senate Bill 220, as passed by the 56<sup>th</sup> Legislature, created a treasure state endowment regional water system fund by redistributing coal

**Table 2**  
**Distributions of Coal Severance and Producer's License Tax**  
**HB260 Declared Unconstitutional**

	<b>Coal Severance Tax</b>			<b>Coal Producer's License Tax</b>			<b>Both Taxes</b>	
	Percent	Fiscal 2000	Fiscal 2001	Percent	Fiscal 2000	Fiscal 2001	Fiscal 2000	Fiscal 2001
Treasure State Endowment Special	NA				0	0	0	0
Agricultural Seed Capital Account	NA				0	0	0	0
Industrial Increment Districts	NA				0	0	0	0
Permanent Trust	0.00%	0	0		0	0	0	0
Treasure State Endowment Trust	37.50%	12,474,750	11,830,125		0	0	12,474,750	11,830,125
TSE Regional Water Fund Trust	12.50%	4,158,250	3,943,375		0	0	4,158,250	3,943,375
General Fund	26.79%	8,911,961	8,451,441		0	0	8,911,961	8,451,441
Long Range Building Program - Cash	12.00%	3,991,920	3,785,640		0	0	3,991,920	3,785,640
Long Range Building Program - Debt	0.00%	0	0		0	0	0	0
Parks Trust	1.27%	422,478	400,647		0	0	422,478	400,647
Arts Trust	0.63%	209,576	198,746		0	0	209,576	198,746
Water Development	0.95%	316,027	299,697		0	0	316,027	299,697
Shared Revenue Account	8.36%	2,781,038	2,637,329		0	0	2,781,038	2,637,329
Research & Commercialization Trust	<u>0.00%</u>	<u>0</u>	<u>0</u>		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Totals</b>	<b>100.00%</b>	<b>\$33,266,000</b>	<b>\$31,547,000</b>		<b>\$0</b>	<b>\$0</b>	<b>\$33,266,000</b>	<b>\$31,547,000</b>

## FISCAL IMPACT OF COURT DECISION ON HB 260

Table 3 summarizes the net impact on all the coal tax accounts since HB 260 was declared unconstitutional. The section following Table 3 highlights the fiscal impact to the various coal tax accounts from a “services delivered” perspective.

Table 3 Net Impact on Coal Tax Accounts HB260 Declared Unconstitutional			
	Revenue Change		
	Fiscal 2000	Fiscal 2001	Biennium
Treasure State Endowment Special	(2,300,000)	(2,300,000)	(4,600,000)
Agricultural Seed Capital Account	(2,500,000)	(2,500,000)	(5,000,000)
Industrial Increment Districts	(600,000)	(600,000)	(1,200,000)
Permanent Trust	0	0	0
Treasure State Endowment Trust	7,764,750	7,364,713	15,129,463
TSE Regional Water Fund Trust	2,588,250	2,454,904	5,043,154
General Fund	603,137	663,761	1,266,898
Long Range Building Program - Cash	(63,780)	(13,227)	(77,007)
Long Range Building Program - Debt	(261,000)	(242,713)	(503,713)
Parks Trust	7,966	12,285	20,251
Arts Trust	1,448	3,766	5,214
Water Development	6,207	9,420	15,627
Shared Revenue Account	58,522	86,527	145,048
Research & Commercialization Trust	(4,999,500)	(4,649,202)	(9,648,702)
Totals	\$306,000	\$290,235	\$596,235

### Fiscal Impact By Account

#### Treasure State Endowment Special

Before the 56<sup>th</sup> Legislature passed HB 260, the Treasure State Endowment (TSE) Special Revenue account received interest earnings from the Treasure State Endowment Trust Fund to fund the Treasure State Endowment Grant Program. House Bill 260 provided an additional revenue source to the TSE Grant program by directly allocating \$4.6 million of the coal producer’s license tax to the TSE special revenue account for the 2001 biennium. This allocation decreases to \$1.2 million for subsequent bienniums.

Since HB 260 was declared unconstitutional, this direct allocation is void and there will be insufficient revenue in the TSE Special Revenue account to fund all of the Treasure State Endowment grants authorized in section 2 of HB 11 passed by the 56<sup>th</sup> Legislature. Because the legislature anticipated a possible legal challenge to this legislation, HB 11 contains a contingent voidness clause that states “If House Bill No. 260 is not enacted or is invalidated by a final judicial decision, [section 2] of [this act] is void and references to that section must

be stricken”. Section 1 of HB 11 is then the operative section, which reduces the authorized project grant list from 32 to 25 projects.

#### Agricultural Seed Capital Account

The Agriculture Development Council makes loans from the agriculture seed capital account to support research relating to innovative organizational improvements in agricultural businesses and to the commercialization and marketing of new agricultural products or agricultural production processes. Since HB 260 was declared unconstitutional, the council has \$5.0 million less money available for loans.

#### Industrial Increment Districts

House Bill 260 appropriated \$600,000 per year to the industrial tax increment financing district (TIF) in Butte-Silver Bow County during the 2001 biennium. The Butte-Silver Bow industrial TIF is also appropriated \$600,000 during the 2001 biennium in property tax reimbursements under SB 184. Since HB 260 was declared unconstitutional, the Butte-Silver Bow industrial TIF will lose \$1.2 million in state reimbursement revenue, but will continue to receive the SB 184 reimbursement during the 2001 biennium. Under either scenario, the Butte-Silver Bow industrial TIF will not receive total revenue replacement due to property tax base reductions under SB 200.

#### Treasure State Endowment Trust

As noted in Table 3, the Treasure State Endowment Trust Fund gains revenue since HB 260 was declared unconstitutional. This results in increased investment earnings available for the Treasure State Endowment Grant Program and partly offsets the loss noted under the “Treasure State Endowment Special” account. The estimated increased investment earnings that accrues to the TSE Trust Fund is \$1.0 million for the 2001 biennium.

#### TSE Regional Water Fund Trust

The 56<sup>th</sup> Legislature authorized the Treasure State Endowment Regional Water Fund Trust account in Senate Bill 220. In the 2001 biennium, the account receives an allocation of 12.5 percent of the coal severance tax. The investment earnings from this trust

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## FISCAL IMPACT OF COURT DECISION ON HB 260

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are available as matching funds to plan and construct regional drinking water systems in Montana. Since HB 260 was found unconstitutional, the 12.5 percent allocation from the coal severance tax represents a much larger dollar amount because the coal severance tax revenue will not be reduced by the credit allowed for the coal producer's license tax. The amount of investment earnings from the trust therefore increases, providing more funding for regional water systems. It should be noted that a legislative appropriation to expend the investment earnings was not established by the 56<sup>th</sup> Legislature.

### General Fund

As shown in Table 3, the general fund account receives additional revenue since HB 260 was declared unconstitutional. Since any funds in this account must be appropriated by the legislature, these monies will increase the ending fund balance and will be available for appropriation by the next legislature.

### Long Range Building Program – Cash

The projected revenue loss to the long range building cash program since HB 260 was declared unconstitutional is not likely to jeopardize the capital construction program authorized by the 56<sup>th</sup> Legislature in House Bill 5. This is because there is an adequate reserve in the projected ending fund balance of the long range building cash account.

### Long Range Building Program – Debt

House Bill 260 allocated 1.74 percent of the coal producer's license tax to the Long Range Building debt service fund to fund the general obligation bonds issued for the purchase of Virginia City and Nevada City property. Since HB 260 was found unconstitutional, the debt service for the general obligation bonds will come from the state general fund.

House Bill 69 passed by the 56<sup>th</sup> Legislature deleted a provision contained in Section 15-35-108, MCA that allocated 1.3 percent of the coal severance tax to the Long Range Building debt service fund to fund the general obligation bonds issued for the purchase of Virginia City and Nevada City property. The 1.3 percent allocation in 15-35-108 diverted coal severance

tax revenue that would have otherwise been deposited into the general fund.

### Parks Trust

Because the Parks Trust is a non-expendable trust, deposits to the account cannot be expended. Only the investment income from this trust fund can be appropriated for the acquisition, development, operation, and maintenance of state recreational areas, state monuments, or state historical sites. Because the balance that can be invested will be larger, the amount of investment earnings from the trust increases, thereby providing more funding for park projects.

### Arts Trust

Because the Arts Trust is a non-expendable trust, deposits to the account cannot be expended. Only the investment income from this trust fund can be appropriated for cultural and aesthetic grants. Because the balance that can be invested will be larger, the amount of investment earnings from the trust increases, thereby providing more funding for cultural projects.

### Water Development

Money in this debt service account (which also receives money from other sources) is used for debt service on renewable resource bonds. However, since a large portion of the funds (that is not needed for debt service) are swept to the renewable resource account and used for other purposes, the repeal of HB 260 has a minimal effect on this account.

### Shared Revenue Account

The 1995 legislature passed Senate Bill 83, which combined five allocations of the coal severance tax (totaling 8.36 percent) into one 8.36 percent allocation, thereby eliminating the five separate accounts. The revenue from this single allocation is now deposited into one account from which the legislature provides appropriations for agricultural development projects, local impact grants, county land planning, conservation districts, and library services. The legislature prioritizes available funds among these five areas. Since any

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## FISCAL IMPACT OF COURT DECISION ON HB 260

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unexpended money in this account is required to be deposited into the general fund, the voiding of HB 260 merely increases the transfer to the general fund by the excess amount going to this account.

### Research & Commercialization Trust

The research and commercialization expendable trust fund was to provide a predictable and stable source of funding for research and commercialization projects conducted in the state. The Board of Research and Commercialization Technology is charged with allocating monies for loans and grants that meet the objectives of their research and commercialization strategic plan (not yet developed). The board met for the first time on September 2, 1999, but did not take any specific actions to develop their strategic plan or guidelines for selecting loan and grant recipients until after the legal challenge was resolved.

The expendable trust fund is statutorily appropriated and must be used only for loans or for matching funds for grants from non-state sources that are to be used for research and commercialization projects to be conducted at research and commercialization centers located in Montana. Research and commercialization centers are defined as campuses of the University of Montana, Montana State University, tribal colleges, colleges of technology, community colleges, agricultural research centers, or private, nonprofit laboratories or research centers. One further restriction is that at least 20 percent of the investments made must be directed toward projects that enhance production of agriculture.

House Bill 621, enacted by the 56<sup>th</sup> Legislature, directly appropriates \$.3 million from this account to the Department of Commerce. The department is to use these funds as grants to local governments that submit nationally competitive proposals to locate the venture star project in Montana. Local governments must provide an equal amount of matching funds.

Since revenues from the coal producer's license tax are the sole funding source for the research and commercialization program, no funding would be available for any research and commercialization projects since HB 260 was declared unconstitutional. This includes the direct appropriation to the Department of Commerce.

### Cooperative Development Center

The general appropriation act (HB 2) contains language under the Department of Agriculture that states "If House Bill No. 260 is passed and approved, \$65,000 each fiscal year of state special revenue money appropriated in House Bill No. 260 must be used for a cooperative development center at MSU-Northern". Since this language attempts to amend statute that specifically allocates the coal producer's license tax, the appropriation is invalid. According to the Legislative Services Division Legal staff, "the allocations of the coal producer's license tax are statutory and may not be amended by language in the general appropriations act".

Since this is already an invalid appropriation, the Montana Supreme Court decision did not change the funds available to the cooperative development center at MSU-Northern. This explains why the total appropriation of \$130,000 is not included in any of the tables previously shown.

### Summary

In summary, since HB 260 was declared unconstitutional, the total tax levied on coal production in the state actually increases by approximately \$.6 million for the 2001 biennium. What will change significantly is the distribution of coal taxes to the various state accounts as previously shown in Table 3. Those accounts receiving major funding shortages include the treasure state endowment grant account, the agricultural seed capital account, and the research and commercialization trust account. The state general fund account increases by \$.8 million for the 2001 biennium, which is a net amount for the general fund and long-range building debt service account.



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## OTHER FISCAL ISSUES INCLUDED IN SESSION CALL

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### Tax Reductions

The legislature, by petition, called a concurrent special session (to the Governor's call) to consider tax reductions. As of this writing, several bill drafts relating to tax reduction had been requested and numerous options were being researched and considered. The LFD general fund balance projections included in this report are intended to provide the legislature a measure of the funds available for tax reduction measures as well as other fiscal bills.

In view of the short time frames of the special session, LFD staff will have minimal or no time prior to the session to analyze or provide information on specific tax reduction proposals, but will do so as time allows after bills are introduced. Staff will be available to assist committees and individual legislators during the session on these bills.

### HB 555 Bonding

The Governor's special session call includes an item described as: "Legislation for the purpose of clarifying the House Bill 555 bonding supporting aerospace, transportation, and technology infrastructure projects." The issue to be addressed appears in the section of the bill, having to do with the authorization of bonds by the board of examiners for "aerospace, transportation, and technology infrastructure development projects." While the bill was being drafted, definitions were developed to be generic in describing projects. However, in Section 5 having to do with the authorization of bonds, the name of a specific project name ("venture star") was inserted. This is viewed by the executive as a potential technical defect in the bill.

The Governor is proposing to correct this to ensure that projects of this type can be pursued regardless of the name of the project. It is not a fiscal issue but rather is clarification of the bill that was enacted.

### Revenue Estimating Resolution

The key economic assumptions targeted as most affecting state government receipts and disbursements are traditionally adopted by the legislature in each session by joint resolution (usually HJR 2). The resolution serves to establish an official estimate of the state's anticipated revenue for each year of the biennium for the purpose of achieving a balanced budget. The Legislative Fiscal Analyst assists the legislature in documenting the budget as approved by the legislature, using the revenue estimates adopted in the revenue estimating resolution and the appropriations approved in various bills.

While it is not directly included in the May 2000 session call, a joint revenue estimating resolution is an essential legislative record that: 1) acts as a tool for carrying out the specific terms of the call; and 2) provides the official revenue estimates of the legislature that are used to support the fiscal bills passed in the special session and document the accomplishment of a balanced budget. Without a revised revenue estimating resolution, the estimates in the 1999 Session HJR 2 remain the Legislature's official estimates, and would not reflect the surplus now projected. Legislators are encouraged to consider introduction of a revenue estimation resolution to achieve these objectives.